GUIDE TO CURRENCY TRADING

from Global Forex Trading

GFT

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Foreign Currencies Guide: Table of Contents

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Guide to Currency Trading

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This guide is written for both people who are new to forex trading as well as those who have experience with trading in the forex market. Written exclusively for traders by our professional forex dealing staff, the Guide to Currency Trading provides an essential overview of the spot forex market in one easy–to–read document. The Guide to Currency Trading is assembled with essentials for developed and emerging countries' currencies.

It is our hope that this guide will provide you with the information necessary to study the fundamental influencers that power the forex market. These comprise concrete facts about each country's respective currency as well as important characteristics and economic indicators that pressure foreign exchange rates. Learn the particulars about each countries monetary and fiscal policy, their economic workings and when governmental announcements or events occur.

The publication begins with a few basic facts about the trend of forex trading, its history and several tidbits about Global Forex Trading. Since 1997, GFT has been helping traders move ahead in the spot forex market. With the introduction of its DealBook® FX 2 trading software in 2001, GFT has grown into a world–leading futures commission merchant and primary market–maker in the spot forex market.

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Forex—A Financial Market Built on Innovation

No matter the state of the U.S. Dollar, more and more speculators across the globe are trading the world's currencies instead of in traditional markets such as equities, futures or options. Forex—the foreign exchange or global currency market-is one of the fastest growing sectors of the financial marketplace for retail traders, according to Stocks Futures and Options Magazine.

Trading the Dollar, the Euro, Japanese Yen or a variety of other currencies, which previously was done only by large banks or a select group of sophisticated individuals, can now be done from a personal computer or personal digital assistant (PDA) as easily as trading a share or two of Microsoft®. With an estimated $1.5 trillion USD traded daily, trading forex is now available for individuals—commonly referred to as retail forex. Until the arrival of the Internet and forex software, the average investor couldn't participate in forex trading.

The rising number of people trading retail forex can be credited to the arrival of high-speed Internet connections and more companies building trading software to access forex. In the past, the only way to gain access to the forex market was through banks that transacted large amounts of currencies for commercial and investment purposes in the interbank market making it unavailable to most individuals.

New generations of high–tech brokerage firms are competing for customers, but only a few are building highly advanced trading platforms that power the tools needed to keep up with the fast–paced forex market. Global Forex Trading, an Ada, Mich.–based company that's risen as a world–leader in online forex trading, has produced one of the most advanced trading platforms for forex to date.

Founded in 1997 as a customer–service/technology–minded company, GFT's proprietary trading software platform for forex traders, called DealBook® FX, was introduced in 2000. In addition to winning several industry awards, DealBook® FX helped to propel GFT into a world–leader of online forex trading by the end of 2001.

Bundled into one software application, the "FX" software transmits resources, such as real–time tradable currency prices, real–time price charting, technical indicators and up–to–the–minute world and financial news. In 2003, GFT introduced a second generation of its industry respected software, DealBook® FX 2 in addition to DealBook® FX Mobile, a full–featured forex trading application for pocket pc users—further evolving access to the forex market.

Forex traders who use GFT's software gain access to the same types of resources employed by top traders throughout the world. Seven years after its founding, GFT symbolizes one the most respected forex trading firms in the foreign exchange industry with clients and global partners in 100 countries worldwide. But, credibility and integrity continue to be the basis of all GFT's relationships, employees and partners.

The company requires that its partners (referring parties) pass through stringent background checks, something that is not required but is done by GFT to ensure the integrity of its partners. In addition, all of GFT's sales team and dealers are licensed forex specialists through the Commodity Futures Trading Commission, the government agency that regulates futures and options markets in the U.S.

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Brief History of Forex

Some form of currency has been around since the time of the pharaohs, but the foreign exchange market (forex), as we know it today, originated in 1973. Several major changes prior to this time gave way to the modern day forex environment.

The Great Depression along with the removal of the gold standard provided the first major transformations for forex. After the U.S. dollar decreased in value, most of the world's currencies were compared to the stable British pound, until after WWI when the British economy was in ruins.

Another key transformation for forex occurred when the Bretton Woods Accord was formed by the U.S., Great Britain and France. These countries met at the United Nations Monetary and Financial Conference in Bretton Woods, N.H., to design a more stable, global financial system. The agreement formulated the idea of "pegging" currencies and created the International Monetary Fund to help stabilize the global economy.

For the first time in history, major currencies were pegged against the U.S. dollar and allowed to fluctuate from a set standard. For example, when an exchange rate approached the limit on either side of the standard, the respective countries central bank would intervene to bring the exchange rate back into an accepted range.

The Bretton Woods Accord ultimately failed along with subsequent agreements to stabilize global currencies, but did establish strength for Europe and Japan. In 1973, the current free–floating system began, but wasn't officially mandated until 1978. The free–floating structure was the beginning of the current foreign exchange market.

Presently, forex is influenced by the G7, an international organization established in 1985 to facilitate economic cooperation among the world's largest industrial nations. Members of the G7 discuss and coordinate actions on economic and commercial matters that sometimes result in the movement of forex markets.

Foreign exchange exists so people, companies and government entities can pay for goods and services. It is also used by importers and exporters, international portfolio managers, multinational corporations, speculators, daytraders, long term holders and hedge funds.

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Today's Forex

Forex is the largest market in the world, with an average of $1.5 trillion U.S. dollars traded daily, that's driven by the supply and demand of currencies. The volume of forex causes significant liquidity, which means it's less influenced by large buy and sell orders that can cause unwarranted price manipulation. This means a person or a company can't enter the market to influence it based strictly off reputation or the volume of a transaction.

In the past, the only way to gain access to the forex market was through banks that moved large amounts of currencies for commercial and investment purposes (known as the interbank market) making it unavailable to all but the wealthiest individuals. In addition to the buying and selling of foreign currencies, interbank market banks compete with each other for corporate customers, most of which, seek to capitalize on the best exchange rates possible (hedging).

One of the largest influencers of the interbank market are the world's central banks. Central banks are the principle government–run banks of the major countries of the world, such as the United States' Federal Reserve Bank or Japan's Bank of Japan. These central banks often intervene in the forex market to carry out their countries' monetary policy. At times, central bank activity can be extremely disruptive to currency markets as governments maneuver to change the level of their currency rates. These interventions can often create great opportunity as well as risk for speculators.

Third-party brokerage firms called primary market–makers provide another component of the forex market. These firms remain on the outer perimeter of the interbank market buying and selling currencies from multiple banks making them very appealing to individual speculators because of the prices they quote. Interbank prices sometimes have large price gaps, but market–makers assume this risk to give consistent, competitive pricing to individuals at a retail level.

Primary market–makers offer prices based on interbank prices to make currency trading available to individuals to trade. These are based upon the exchange rates as they are quoted by banks to each other. Furthermore, primary market-makers provide a two–sided market and add overall liquidity to the forex market.

Because forex trading is not centralized on an exchange as with the stock and futures markets, it's considered an over–the–counter (OTC) market. Most forex transactions are conducted between two parties via a telephone or the Internet. Like other financial instruments, forex firms make a small profit from the differences between the buy and sell prices, thus offering commission–free trading.

Most forex trading firms make third–party software available to traders while others develop their own proprietary trading software. Real–time currency prices and data are fed into the software via a dealing desk so traders can make decisions or predictions in an effort to make a profit. Some of the most advanced forex trading software today includes real–time charting, technical indicators and up-to-the-minute news. These resources used to be only available to professional traders in the interbank market.

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Trading Forex

Forex trading is the simultaneous buying of one currency and selling of another and is traded in pairs (e.g., Euro/U.S. Dollar or U.S. Dollar/Japanese Yen). For speculators, the best trading prospects are with the most commonly traded currencies called “the majors.” More than 85 percent of all daily transactions involve trading the majors, including the U.S. Dollar, Japanese Yen, Euro, British Pound, Swiss Franc, Canadian Dollar and Australian Dollar.

Like most other financial instruments, forex is quoted on a “bid” and “ask” price system. For instance, the bid is the price at which a dealer is willing to buy (and clients can sell) the base currency for a counter currency. The ask price, on the other hand, is the price at which dealers will sell (and clients can buy) the base currency for the counter currency.

USD / JPY
base currency counter currency

USD / JPY
buy sell

USD / JPY
bid ask

The forex market literally follows the sun around the globe, beginning in Sydney and moving as the business day begins in each financial center. For example, when the Pacific Rim markets such as Japan and Singapore begin to slow, the European markets open.

These markets are then followed by the North American markets of the United States, Canada and Mexico. As these slow down for the evening, the trading cycle in Australia begins again. Unlike any of the other financial markets, speculators can respond to currency fluctuations caused by economic, social and political events at the time they occur, day or night.

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History of Global Forex Trading

Global Forex Trading (GFT), Division of Global Futures & Forex, Ltd., was founded in 1997 by Gary L. Tilkin. GFT was created to address the increasing number of currency trading demands Tilkin's clients had in the futures and spot forex markets. Tilkin also formed GFT to bring integrity in products and improved customer service to forex clients, an emerging market for individual speculation. Global Futures & Forex, Ltd. remains the parent company of GFT, with its business focused on providing clients access to futures contracts.

GFT's founding principals were aimed at creating the best technological infrastructure and forex trading software while delivering the best possible client services. Its management team identified the union between forex and the Internet would create a niche market geared for individual forex speculators. The combination resulted in a new generation of brokerage firms competing for customers who demanded speed, accuracy and accountability to pursue forex pricing and trading.

While many other forex firms focused on developing a forex market and high-cost training programs, GFT concentrated on building and perfecting forex software, technology and tools. Traders needed fast, accurate delivery of currency prices in order to make informed trading decisions on fast–moving forex markets, but most software had failed to keep up. GFT's turning point happened shortly after building its own proprietary forex trading platform followed by discontinuing its use of third–party software that did not meet its performance needs.

At the same time it leveraged relationships with experienced forex professionals, GFT employed a team of experts in software development to create a forex trading platform like no other. GFT's proprietary trading software platform for forex traders, called DealBook® FX, was validated by forex users around the world in 2000. Winning several industry awards, DealBook® FX helped to build GFT into a world-leader in online forex trading by the end of 2001.

GFT's trading platform is unique because it's powered using many of the same tools once only available to interbank professionals. Bundled into one program, the platform delivers resources such as real–time currency prices, real–time price charting, technical indicators and up-to-the-minute world and financial news. In 2003, GFT introduced a second generation of its software, DealBook® FX 2. In addition, GFT introduced DealBook® FX Mobile, a full–featured forex trading application for pocket pc users. Both of these products bolstered GFT as a technology innovator.

In addition to software, another backbone of GFT's online currency trading services is found in its investment in technology. Traders who use GFT achieve maximum security and reliability to get the information needed for instant results. Its systems utilize a fast order execution and trading structure supported by multiple, redundant server clusters, Internet connections and backup power systems.

Serving customers in 100 countries worldwide, GFT is partnered with referring parties that introduce new traders to GFT and its services. GFT also offers private "white labeling" of its software for companies who are looking to build their own brand in the market. The key to GFT's popularity with independent affiliates is its ability to deliver reliable, competitive currency pricing and quality in its products and services.

To date, GFT has realized triple–digit growth in each successive year through 2003. GFT's technological infrastructure and investment in forex trading software indicates more growth in the future as the demand for its products and services continues to assist forex traders throughout the world.

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Foreign Currencies Guide: Australia

SPOT

Currency	Australian Dollar
Common Name	Aussie
Quotation Convention	4 decimal points
Most liquid cross	AUD / USD
Average Bid / Offer *	5 pips (0.6800 / 0.6805)
1 pip	.0001 USD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

Australia's gross domestic product (GDP) for 2002 was close to $400 billion USD The economy is relatively small, but on a per capita basis is comparable to many industrialized Western European countries. Australia has a service–oriented economy with close to 79 percent of its GDP coming from industries such as finance, property and business services. However, the country has a trade deficit, with manufacturing dominating its exporting activities. Rural and mineral exports account for over 60 percent of all manufacturing exports. As a result, the economy is highly sensitive to changes in commodity prices.

Japan and the ASEAN (Association of Southeast Asian Nations) are the leading importers of Australian goods. In the past, however, Australia has experienced much of the spillover effects of general Asian weakness. This resilience stems from Australia's sound foundation of strong domestic consumer consumption.

MONETARY & FISCAL POLICY

The Reserve Bank of Australia (RBA) is responsible for the monetary policy of Australia. Decisions on monetary policy are based upon consensus within the committee.

The RBA's charter states that the mandate of the Reserve Bank Board is to focus monetary and banking policy to help ensure:

– the stability of the currency of Australia;
– the maintenance of full employment in Australia; and
– the economic prosperity and welfare of the people of Australia.

In order to achieve these objectives, the government has set an informal consumer price inflation target of 2 to 3 percent per year.

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MONETARY & FISCAL POLICY (continued)

Cash rate: This is the RBA's target rate for open market operations. The cash rate is the rate charged on overnight loans between financial intermediaries. As a result, the cash rate should have a close relationship with the prevailing money market interest rates. Changes in monetary policy directly affect the interest rate structure of the financial system.

Open market operations: The focus of daily open market operations is to keep the cash rate close to the target by managing money market liquidity provided to commercial banks. If the Reserve Bank wishes to decrease the cash rate, they would increase supply of short–dated repurchase agreements at a lower interest rate than the prevailing cash rate, which would in essence, decrease the cash rate. If the Reserve Bank wishes to increase the cash rate, they would decrease supply of short-dated repurchase agreements, which would in essence increase the cash rate. A repurchase agreement involves a cash taker (commercial bank) selling securities to a cash provider (RBA) while agreeing to repurchase the securities of the same type and quantity at a later date. This structure is similar to a secured loan whereby the cash taker must pay the cash provider interest. These repo transactions tend to have very short maturities ranging from one day to a few weeks.

Since 1983, Australia has had a floating exchange rate. The Reserve Bank of Australia may undertake foreign exchange market operations when the market threatens to become excessively volatile or when the exchange rate is clearly inconsistent with underlying economic fundamentals. The RBA monitors a trade–weighted index (TWI) as well as the cross–rate with the U.S. dollar. Intervention operations are invariably aimed at stabilizing market conditions rather than meeting exchange rate targets.

The RBA meets every month (except for January), on the first Tuesday of each month to discuss potential changes in monetary policy. Following each meeting, the RBA issues a press release outlining justifications for their monetary policy changes. They also publish a monthly Reserve Bank Bulletin. The May and November issues of the Reserve Bank Bulletin include the Semi-Annual statement on the Conduct of Monetary Policy. The February, May, August, and November issues contain a Quarterly Report on the Economy and Financial Markets. It is important to read these bulletins for signals on potential monetary policy changes.

IMPORTANT CHARACTERISTIC OF THE AUSTRALIAN DOLLAR

Commodity–linked currency:
The AUD$ has an 80 percent correlation with commodities and more specifically, gold prices. Its link to gold stems from Australia being the third largest gold producer in the world and represents approximately $5 billion in exports for the nation each year. As a result, the AUD$ benefits when commodity prices increase. Of course, it also decreases when commodity prices decline.

Carry trade effects:
Australia has one of highest interest rates among the developed countries. With a fairly liquid currency, the AUD$ is one of the most popular currencies to buy for carry trades.

Interest rate differentials between the cash rates of Australia and the short–term interest rate yields of other industrialized countries are closely followed:
Interest rate differentials can be good indicators of potential money flows as they indicate how much yield premium AUD$ short–term fixed income assets are offering over foreign short-term fixed income assets, or vice versa. This differential provides traders with indications of potential currency movements, as investors are always looking for assets with the highest yields.

Severe weather conditions such as droughts, negatively affect Australia's economy:
Since the bulk of Australia's exports are commodities, the country's GDP is highly sensitive to severe weather conditions that may damage the country's farming activities. This is especially important because agriculture accounts for 3 percent of the country's GDP. The RBA estimates that the "decline in farm production could directly reduce GDP growth by around 1 percentage point." Aside from exporting activities, a drought also has indirect effects on industries that supply and service agriculture.

IMPORTANT ECONOMIC INDICATORS FOR AUSTRALIA

— Gross Domestic Product (GDP)
— Consumer Price Inflation (CPI)
— Balance of Goods and Services
— Private Consumption
— Producer Price Index (PPI)

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Foreign Currencies Guide: Canada

SPOT

Currency	Canadian Dollar
Common Name	Canadian
Quotation Convention	4 decimal points
Most liquid cross	USD / CAD
Average Bid / Offer *	5 pips (1.4500 / 1.4505)
1 pip	.0001 CAD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

Canada is the 7th largest country in the world with GDP valued at $700 billion USD in 2001. The country has been growing consistently since 1991. Canada is currently the world's 5th largest producer of gold and the 14th largest producer of oil. However, two–thirds of the country's GDP comes from the service sector, which employs 3 out 4 Canadians. Manufacturing and resources are very important for the Canadian economy, as it represents over 25 percent of the country's exports.

MONETARY & FISCAL POLICY

The Bank of Canada (BoC) determines monetary policy for Canada. The BoC does not have periodic policy setting meetings. Instead, the council meets on a daily basis and changes in policy can be made at any point in time.

The Bank of Canada's focus is on maintaining the integrity and value of the Canadian dollar currency. This primarily involves ensuring price stability. Price stability is maintained by adhering to an inflation target agreed upon with the Canada's Department of Finance. This inflation target is currently set at 1 percent to 3 percent. The BoC controls inflation through short–term interest rates. Monetary conditions tighten when short–term rates increase or the trade–weighted Canadian dollar appreciates.

To change monetary policies, the bank would manipulate the bank rate, which would affect the exchange rate. If the currency appreciates to undesirable levels, the BoC can decrease interest rates to offset the rise. If it depreciates, the BoC can raise rates. However, interest rate changes are not used for the purposes of manipulating the exchange rate. Instead, it is used to control inflation.

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MONETARY & FISCAL POLICY (continued)

The following are the most commonly used tools by the BoC to implement monetary policy:

Gross Domestic Product (GDP)

Bank Rate: This is the main rate used to control inflation. This is the rate of interest that the Bank of Canada charges to commercial banks. Changes to this rate will affect other interest rates, including mortgage rates and prime rates charged by commercial banks. Therefore, changes to this rate filter into the overall economy.

Open Market Operations: The Large Value Transfer System (LVTS) is the framework for the BoC's implementation of monetary policy. It is through this framework that Canada's commercial banks borrow and lend overnight money to each other in order to fund their daily transactions. The LVTS is an electronic platform through which these financial institutions conduct large transactions. The interest rate charged on these overnight loans is called the overnight rate or bank rate. The BoC can manipulate the overnight rate by offering to lend at rates lower or higher than the current market rate if the overnight lending rate is trading above or below the target banks.

On a regular basis, the bank releases a number of publications that are important to watch. This includes a biannual monetary policy report that contains an assessment of the current economic environment and implications for inflation and a quarterly Bank of Canada Review that includes economic commentary, featured articles, speeches by members of the governing council and important announcements.

IMPORTANT CHARACTERISTICS OF THE CANADIAN DOLLAR

Commodity linked currency
Canada's economy is highly dependent on commodities. The positive correlation between the Canadian dollar and commodity prices is close to 60 percent. Typically, as commodity prices increase, the CAD increases and when commodity prices decrease, the CAD declines.

Strong correlation with the U.S.
The U.S. imports 85 percent of Canada's exports. The Canadian economy is highly sensitive to changes in the U.S. economy.

Mergers and acquisitions between firms in the U.S. and Canada are very common
Due to the proximity of the U.S. and Canada, cross–border mergers and acquisitions are very common as companies worldwide strive for globalization. These mergers and acquisitions lead to money flowing between the two countries, which ultimately affect the currencies.

Interest rate differentials between the cash rates of Canada and the short-term interest rate yields of other industrialized countries are closely followed.
Interest rate yield differentials provide traders with indications of potential currency movements, as investors are always looking for assets with the highest yields.

Carry trades
When Canada has a higher interest rate than the U.S., the sell–USD, buy–CAD carry trade becomes more popular due to the proximity of the two countries.

IMPORTANT ECONOMIC INDICATORS FOR CANADA

— Unemployment
— Consumer Price Index (CPI)
— Gross Domestic Product (GDP)
— Balance of Trade
— Producer Price Index (PPI)
— Consumer Consumption

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Foreign Currencies Guide: European Union

SPOT

Currency	Euro
Common Name	Euro
Quotation Convention	4 decimal points
Most liquid cross	EUR / USD
Average Bid / Offer *	3 pips (1.1570 / 1.1573)
1 pip	.0001 USD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

The European Union (EU) was developed as an institutional framework for the construction of a united Europe. The EU consists of 15 member countries; Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and the United Kingdom. All of these countries share the Euro as a common currency, except for Denmark, Sweden and the United Kingdom. They are known as the European Monetary Union (EMU). Aside from a common currency, these countries also share a single monetary policy dictated by the European Central Bank or (ECB).

The EMU is the world's second largest economic power, with GDP valued at over $6 trillion USD in 2002. With a highly developed fixed income, equity and futures market, the EMU has the second most attractive investment market for domestic and international investors. The EMU is primarily a service–oriented economy. Services in 2001 accounted for approximately 70 percent of GDP while manufacturing, mining and utilities only account for 22 percent of GDP.

The EMU is a trade– and capital–flow driven economy. Unlike most major economies, the EMU does not have a large trade deficit or surplus. In fact, the EMU went from a small trade deficit in 2001 to a small trade surplus in 2002. EU exports comprise approximately 19 percent of world trade while EU imports account for only 17 percent of total world imports. Because of the size of the EMU's trade with the rest of the world it has significant power in the international trade arena. International clout is one of the primary goals when the EU was formed allowing the individual countries to group as one entity as well as negotiating a more equal playing field with the U.S., its largest trading partner.

The EU's growing role in international trade has important implications for the role of the Euro as a reserve currency. It is important for countries to have large amount of reserve currencies to reduce exchange risk and transaction costs. Traditionally, most international trade transactions involve the British Pound, the Japanese Yen, and/or the U.S. Dollar. Before the Eurp was establishment of the Euro, it was unreasonable to hold large amounts of every individual EU national currency. As a result, currency reserves tended toward the dollar. At the end of the 1990s approximately 65 percent of all world reserves were held in U.S. dollars, but with the introduction of the euro foreign reserve assets are shifting in favor of the euro. This trend is expected to continue while the EU becomes one of the major trading partners for most countries around the world.

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MONETARY & FISCAL POLICY

The European Central Bank (ECB) is the governing body responsible for determining the monetary policy of the countries participating in the EMU. The ECB's executive board comprises a president, a vice president and four board members. These individuals along with the governors of the national central banks make up a governing council that makes new monetary policy decisions. Changes or decisions are typically made by majority vote and the ECB's president has the casting vote in the event of a tie. The council holds meetings on a biweekly basis.

The EMU's primary objective is to maintain price stability and to promote growth. Monetary and fiscal policy changes are made to ensure that this objective is met. With the formation of the EMU, the Maastricht Treaty was developed by the EU to apply a number of criteria, objectives and goals for each member country. Deviations from these criteria by any one country will result in heavy fines. Listed below, are the EMU criteria. It is apparent based upon these measures that the ECB has a strict mandate focused on inflation and deficit. Generally, the ECB strives to maintain annual growth in HCPI (Harmonized Consumer Price Index) below 2 percent and M3 money supply) annual growth around 4.5 percent.

THE EMU CRITERIA

In the 1992 Treaty on European Union (the Maastricht Treaty) the following criterion were formulated as a precondition for any EU member state joining economic and monetary union (EMU).

— A rate of inflation no more than 1.5 percent above the average of the three best performing member states, taking the average of the 12–month year–on–year rate preceding the assessment date.
— Long–term interest rates not exceeding the average rates of these low–inflation states by more than 2 percent for the preceding 12 months.
— Exchange rates which fluctuate within the normal margins of the exchange–rate mechanism (ERM) for at least two years.
— A general government debt/GDP ratio of not more than 60 percent, although a higher ratio may be permissible if it is "sufficiently diminishing."
— A general government deficit not exceeding 3 percent of GDP, although a small and temporary excess can be permitted.

The primary tools the ECB uses to control monetary policy is the following:

Open Market Operations: The ECB has four main categories of open market operations to steer interest rates, manage liquidity and signal its monetary policy stance. These categories are main refinancing operations with average maturities of two weeks, longer–term refinancing operations with average maturities of three months, fine tuning operations done ad hoc to manage liquidity and structural operations such as the issuance of debt certificates or reverse transactions.

ECB Minimum Bid Rate (repo rate): This rate is the key policy target for the ECB. It is the level of borrowing that the ECB offers to the central banks of its member states. This is the rate that is subject to change at the biweekly ECB meetings. Since inflation is of high concern to the ECB they are more inclined to keep interest rates at lofty levels to prevent inflation. Changes in the ECB's minimum bid rate have large ramifications for the EUR.

The ECB does not have an exchange rate target, but will factor in exchange rates in their policy deliberations due to exchange rates affect on price stability. Therefore, the ECB is not prevented from intervening in the foreign exchange markets if they believe that inflation is a concern. As a result, comments by members of the governing council are widely watched by the forex market participants because they frequently move the EUR.

The ECB publishes a monthly bulletin detailing analysis of economic developments and changes to its perceptions of economic conditions, which is important to follow for signals to changes in the bias of monetary policy.

IMPORTANT CHARACTERISTICS OF THE EURO

EUR/USD cross is the most liquid currency
The Euro was introduced as an electronic currency in Jan 01, 1999. At this time, the Euro replaced all pre–EMU currencies, except for the Greece's currency, which was converted to the Euro in Jan 2001. As a result, the EUR/USD cross is now the most liquid currency in the world and its movements are used as the primary gage of both general European and U.S. strength/weakness.

Euro risks as a new currency
Since the Euro is a new currency, there are number of factors that need to be considered as risks to the Euro that are not factors for other currencies. Namely, the ECB is frequently considered an untested central bank, due to its short history. This short history does not give market participants a good gage to how the central bank would react under different economic and political conditions. In addition, since the Euro is the currency for 12 member countries, it is highly sensitive to political or economical instabilities in any one country.

Spread between ten–year U.S. Treasuries and ten–year Bunds can indicate Euro sentiment
The ten–year government bonds serve as an important indicator of future euro exchange rates, especially against the U.S. dollar. The differential between the 10–year U.S. government bond and the 10–year German Bund rates can provide a good indication for Euro movement. If Bund rates are higher than treasury rates and the differential increases, or the spread widens, this implies EUR bullishness. A decrease in the differential, or spread tightening is EUR bearish. The 10–year German Bund is typically used to represent the Eurozone.

Interest rate differentials are use to predict Euro area money flows
Another useful interest rate is the 3–Month Interest Rate, also known as the Euro interbank offer rate or the Euribor rate. This is the rate offered from one large bank to another on interbank term deposits. Traders tend to compare the Euribor futures rate with the Eurodollar futures rate. Eurodollars are deposits denominated in U.S. dollars at banks and other financial institutions outside the United States. Because investors like high yielding assets, European fixed income assets become more attractive as the spread between Euribor futures and Eurodollar futures widens, in favor of the Euribors. As the spread narrows, European assets become less attractive, whereby implying a potential decrease in money flows into the Euro.

IMPORTANT INDICATORS FOR THE EURO

All of the following economic indicators are important for the Euro. However, since the EMU consists of 12 countries, it is important to keep abreast of political and economic developments such as GDP growth, inflation, and unemployment for all member countries. The largest countries within the EMU are Germany, France and Italy. Therefore, in addition to the overall EMU economic data, the economic data of these three countries are the most important.

— Gross Domestic Product (GDP)
— Individual Country Budget Deficits
— IFO Business Climate Survey
— Harmonized Index of Consumer Prices (HCIP)
— M3 (measure of monetary supply tracked by the New York Federal Reserve Bank and reported every Thursday)
— German Unemployment
— German Industrial Production

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Foreign Currencies Guide: Great Britain (United Kingdom)

SPOT

Currency	Great British Pound
Common Name	Sterling, Cable
Quotation Convention	4 decimal points
Most liquid cross	GBP / USD
Average Bid / Offer *	4 pips (1.7000 / 1.7004)
1 pip	.0001 USD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

The United Kingdom is the world's fourth largest economy with GDP valued at over $1.4 trillion USD in 2001. The economy is very healthy, with low unemployment, expanding output and resilient consumption. The strength of consumer consumption has in large part been due to a strong housing market, which is currently 16 percent above the peak in 1988. The U.K. has a service–oriented economy, with manufacturing representing an increasingly smaller portion of GDP, equivalent to only one–fifth of its national output. It's capital market systems are one of the most developed in the world and, as a result finance and banking, has become the strongest contributors to GDP. Although the majority of the U.K.'s GDP is from services, it is important to know that they are also one of the largest producers and exporters of natural gas in the EU. The energy production industry accounts for 10 percent of GDP, one of the highest shares of any industrialized nation. This is particularly important, as increases in energy prices, such as oil, will significantly benefit the large number of U.K. oil exporters.

Overall, the U.K. is a net importer of goods with a consistent trade deficit. Its largest trading partner is the European Union (E.U.), with trade between the two constituencies accounting for more than 50 percent of all of the country's import and export activities. The U.S., on an individual basis, still remains the U.K.'s largest trading partner.

The central issue that the U.K. is grappling with is whether or not to join the Euro. The decision on Euro entry has significant ramifications for the U.K. economy. Currently, this is the key political and economic agenda on the government's plate. The Treasury has specified five economic tests that must be met prior to Euro entry.

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U.K.'S FIVE ECONOMIC TESTS FOR EURO

1. Is there sustainable convergence in business cycles and economic structures between the U.K. and other European Currency Unite members (ECU) so that the U.K. citizens could live comfortably with Euro interest rates on a permanent basis?

2. Is there enough flexibility to cope with economic change?

3. Would joining the ECU create an environment that would encourage firms to invest in the U.K.?

4. Would joining the ECU have a positive influence on the competitiveness of the U.K.'s financial services industry?

5. Would joining the ECU be good for promoting stability and growth in employment?

The U.K. is a very political country where government officials are highly concerned with voter approval. If voters do not support Euro entry, the likelihood of ECU entry would decline. The following are some of the arguments for and against adopting the Euro:

Arguments in favor of adopting the Euro:

— Reduced exchange rate uncertainty for U.K. businesses and lower exchange rate transaction costs or risks.
— The prospect of sustained low inflation under the governance of the European Central Bank, should reduce long-term interest rates and stimulate sustained economic growth.
— Single currency promotes price transparency.
— The integration of national financial markets of the EU will lead to higher efficiency in the allocation of capital in Europe.
— The Euro is the second most important reserve currency after the USD.
— With the U.K. joining the Euro, the political clout of the EMU would increase dramatically.

Arguments against adopting the Euro:

— Currency unions have collapsed in the past.
— Economic or political instabilities of one country would affect the Euro, which would have exchange rate ramifications for otherwise healthy countries.
— Strict EMU criteria.
— Entry would mean a permanent transfer of domestic monetary authority to the European Central Bank.
— Joining a currency union with no monetary flexibility would require the U.K. to have more flexibility in the labor and housing markets.
— Adjusting to new currency will require large transaction costs.

One of the primary reasons for not joining the Euro is that the U.K. government has sound macroeconomic policies that have worked very well for the country. Their successful monetary and fiscal policies have led them to outperform most major economies in the current economic downturn, including the EU.

MONETARY & FISCAL POLICY MAKERS

The Bank of England (BoE) is the United Kingdom's central bank. Monetary policies are centered on achieving an inflation target dictated by the Treasury Chancellor. Currently, this target is RPIX (Retail Price Index) inflation of 2.5 percent. The central bank has the power to change interest rates to levels that they believe will allow them to meet this target. The MPC holds monthly meetings, which are closely followed for announcements on changes in monetary policy, including changes in the interest rate (bank repo rate).

The MPC publishes statements after every meeting, along with a quarterly Inflation Report detailing the MPC's forecasts for the next two years of growth and inflation and justification for their policy movements. In addition, another publication, the quarterly bulletin, provides information on past monetary policy movements and analysis of the international economic environment and its impacts on the U.K. economy. All of these reports contain detailed information on the MPC's policies and biases for future policy movements.

MONETARY & FISCAL POLICY MAKERS (continued)

The main policy tools used by the MPC and BoE are:

Bank Repo Rate: This is the key rate used in monetary policy to meet the Treasury's inflation target. This rate is set for the bank's own operations in the market, such as their short term lending activities. Changes to this rate, affect the rates set by the commercial banks for their savers and borrowers. In turn, this rate will affect spending and output in the economy, and eventually costs and prices. An increase in this rate would imply an attempt to curb inflation, while a decrease in this rate would be to stimulate growth and expansion.

Open Market Operations: The goal of open market operations is to implement the changes in the bank repo rate, while assuring adequate liquidity in the market and continued stability in the banking system. This is reflective of the three main objectives of the BoE; maintaining the integrity and value of the currency, maintaining the stability of the financial system, and seeking to ensure the effectiveness of the United Kingdom's financial services. To ensure liquidity, the Bank conducts daily open market operations to buy or sell short term government fixed-income instruments. If this is not sufficient to meet liquidity needs, the Bank would also conduct additional overnight operations.

IMPORTANT CHARACTERISTICS OF THE BRITISH POUND

GBP is very liquid

GBP/USD is one of the most liquid currencies in the world, with 6 percent of all currency trading involving GBP as either the base or counter currency. One of the reasons for the currency's liquidity is the country's highly developed capital markets. Many foreign investors seeking opportunities other than the U.S. have sent their funds to the U.K.

GBP carry trades

GBP has one of the highest interest rates among the developed countries. Australia and New Zealand have higher interest rates, but their financial markets are not as developed. As a result, many investors who are currently in or interested in participating in carry trades, will buy GBP.

Interest rate differentials between Gilts and foreign bonds are closely followed

Interest rate differentials between U.K. Gilts/U.S. Treasuries and U.K. Gilts/German Bunds are widely watched by forex market participants. These differentials indicate how much premium yield U.K. fixed income assets are offering over U.S. and European (German Bunds are usually used as a barometer for European yield) fixed income assets, or vice versa. This differential provides traders with indications of potential currency movements, as investors are always looking for assets with the highest yields.

EURO–STERLING FUTURES CAN GIVE INDICATIONS FOR INTEREST RATE MOVEMENTS

Since the U.K. interest rate or bank repo rate is the primary tool used in monetary policy, it is important to keep abreast of potential changes to the interest rate. Comments from government officials are one way to gage biases for potential rate changes, but the BoE is one of the only central banks that require members of the Monetary Policy Committee to publish their voting records. This personal accountability indicates that comments by individual committee members represent their own opinions and not that of the BoE.

Therefore, it is necessary to look for other indication of potential BoE rate movements. Three–month Euro–sterling futures reflect market expectations on Euro–sterling interest rates three months into the future. These contracts are also useful in predicting U.K. interest rate changes, which will ultimately effect the GBP.

COMMENTS BY U.K. POLITICIANS WILL AFFECT THE EURO

Any speeches, remarks (especially from the Prime Minister or Treasury Chancellor) or polls in regards to the Euro will affect the currency markets. Indication for adoption of the Euro tends to put downward pressure on GBP, while further opposition to Euro entry will typically boost the GBP. Reason being that in order for the GBP to come in line with the Euro, interest rates would have to decrease significantly (at the time of this writing, U.K. interest rates is 4 percent, versus Euro interest rates of 2.75 percent). A decrease in the interest rate, would induce carry trade investors to close their positions, or in essence sell GBP. GBP would also decline because of the uncertainties involved with Euro adoption. The U.K. is performing very well under the direction of its current monetary authority. The EMU is currently encountering many difficulties with member countries breaching EMU criteria. With one monetary authority dictating 12 countries (plus U.K. would be 13), the EMU has yet to prove that they have developed a monetary policy suitable for all member states.

GBP HAS POSITIVE CORRELATION WITH ENERGY PRICES

The U.K. houses some of the largest energy companies in the world, including British Petroleum. Energy production represents 10 percent of GDP. As a result, the GBP has a positive correlation with energy prices. Specifically, since many members of the EU import oil from the U.K., as oil prices increase, they will have to buy more GBP to fund their energy purchases. In addition, rises in the price of oil will also benefit the earnings of the nations' energy exporters.

GBP CROSSES — EUR/GBP VERSUS GBP/USD

Although the GBP/USD is more liquid than EUR/GBP, the EUR/GBP is typically the leading gage for GBP strength. The reason is because Britain's primary trade and investment partner is Europe. As a result, moves in the EUR/GBP cross can filter into movements in GBP/USD. Of course, movements in GBP/USD will also affect the EUR/GBP rate. The EUR/GBP rate should be exactly equal to the rate of EUR/USD divided by GBP/USD. Small differences in these rates are often exploited by market participants.

IMPORTANT ECONOMIC INDICATORS FOR THE U.K.

— Employment Situation
— Retail Price Index (RPIX)
— Gross Domestic Product (GDP)
— Industrial Production
— Purchasing Managers Index (PMI)
— U.K. Housing Starts

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Foreign Currencies Guide: Japan

SPOT

Currency	Japanese Yen
Common Name	Yen
Quotation Convention	2 decimal points
Most liquid cross	USD / JPY
Average Bid / Offer *	3 pips (110.70 / 110.73)
1 pip	.01 JPY
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

Japan is the third largest economy in the world with GDP valued at over $4 trillion USD in 2002 (behind the U.S. and the entire Eurozone or EMU). The country is also one of the world's largest exporters and is responsible for over $400 billion in exports per year. Manufacturing and exports account for nearly 20 percent of GDP. This has resulted in a consistent trade surplus, which creates an inherent demand for the JPY (despite severe structural deficiencies). Aside from being an exporter, Japan is also a large importer of raw materials for the production of its goods. The primary trade partners for Japan in terms of imports and exports are the U.S. and China. China is becoming an increasingly important trade partner. In fact, China's inexpensive goods have allowed it to gain a larger share of Japan's import market.

JAPANESE BANKING CRISIS

In the 1980s, Japan's capital market was one of the most attractive markets for international investors seeking Asian investment opportunities.. The country had the most developed capital markets in the region while its banking system was considered to be the one of strongest in the world. At the same time, the country also experienced above–trend economic growth and near-zero inflation. This resulted in rapid growth expectations, boosted asset prices and rapid credit expansion that led to the development of an "asset bubble."

Between 1990 and 97 the asset bubble collapsed inducing a USD $10 trillion fall in asset prices, as well as a fall in real estate prices that accounted for nearly 65 percent of the total decline. The net loss was worth two years of Japan's national output. This fall in asset prices sparked the banking crisis in Japan, whicn began in the early 1990s and developed into a full–blown systemic crisis in 1997, followed by the failure of a number of high–profile financial institutions. Many of these banks and financial institutions extended loans to the builders and real estate developers at the height of the asset bubble in the 1980s using the land to be built upon as the collateral. A number of these developers defaulted after the asset bubble collapse leaving the country's banks saddled with bad debt and collateral worth sometimes 60 to 80 percent less than when the loans were taken out. Due to the large size of these banking institutions and their role in corporate funding, the crisis had profound effects on the Japanese and global economies. As a result, enormous bad debts, falling stock prices and a collapsing real estate sector have crippled the Japanese economy for almost two decades.

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JAPANESE BANKING CRISIS (continued)

With Japan experiencing deflationary conditions each succeeding month of deflation raised the real burden of the banks' outstanding debt. To date, the Japanese Ministry of Finance and Bank of Japan are still grappling with this problem. As a result, they have only injected capital into these ailing banks as a solution to prevent bankruptcies. Since the beginning of the crisis, they have hoped that the banks would grow their way back to health.

In addition to the banking crisis, Japan has the highest debt level of all of the industrialized countries, at more than 140 percent of its GDP. Deteriorating fiscal positions and public debt continuing to rise, Japan has experienced over 10 years of stagnation posing risk of a liquidity crisis.

The banking sector has become highly dependent on a government bailout. As a result, the JPY is very sensitive to political developments such as speeches by government officials with rhetoric that may indicate potential changes in monetary and fiscal policy, attempted bailout proposals, and any other rumors.

MONETARY & FISCAL POLICY MAKERS

The Bank of Japan (BoJ) is the key monetary policymaking body in Japan. In 1998, the Japanese government passed laws giving the BoJ operational independence from the Ministry of Finance (MoF) and complete control over monetary policy. However, despite the government's attempts to decentralize decision–making, the MoF still remains in charge of foreign exchange policy. The BoJ is responsible for executing all official Japanese foreign exchange transactions at the direction of the MoF. Monetary policy meetings are held twice a month with briefings and press releases provided immediately. The BoJ also publishes a monthly report issued by its policy board, and a monthly economic report. These reports are important to watch for changes in BoJ sentiment and signals of new monetary or fiscal policy measures since the government is constantly trying to develop initiatives to stimulate growth.

The MoF and the BoJ are very important institutions who have the ability to affect currency movements. Since the MoF is the director of foreign exchange interventions, it is important to watch and keep abreast of the comments made from MoF officials. Being an export driven economy, the MoF favors a weak JPY.

The most popular tool that the BoJ uses to control monetary policy is the following:

Open Market Operations: These activities are focused on controlling the uncollateralized overnight call rate. Since the discount rate is zero, the Bank of Japan cannot further decrease this rate to stimulate growth, consumption or liquidity. Therefore in order to maintain zero interest rates, the BoJ has to manipulate liquidity through open market operations, targeting zero interest on the overnight call rate. They manipulate liquidity by the outright buying or selling of bills, repos or Japanese government bonds. A repo transaction involves a cash taker (borrower) selling securities to a cash provider (lender) while agreeing to repurchase the securities of the same type and quantity at a later date. This structure is similar to a secured loan whereby the cash–taker must pay the cash provider interest. Repo transactions tend to have very short maturities ranging from one day to a few weeks.

In terms of fiscal policy, the Bank of Japan is currently considering a number of methods to deal with their non–performing loans. This includes inflation targeting, nationalizing a portion of private banks and repackaging the banks' bad debt and selling them at a discount. No policies have been decided upon, but the government is aggressively considering all of these and other alternatives.

IMPORTANT CHARACTERISTICS OF THE JPY

Proxy for Asian strength / weakness
Japan is a proxy for Asian strength because they have the largest GDP in Asia. With the most developed capital markets, Japan was once the primary destination for all investors who wanted access into the region. Japan also conducts a significant amount of trade with its Asian partners. As a result, economic problems or political instability in Japan, tend to spill over into the other Asian countries. However, this spillover is not one–sided. Economic or political problems in other Asian economies can also have dramatic impacts on the Japanese economy and hence, JPY movements. For example, with North Korean political instability, Japan and the JPY are at the greatest risk of the G7 countries, as they have the strongest ties to North Korea.

Bank of Japan intervention practices
The BoJ and MoF are very active participants in the FX markets. That is, they have a lengthy history of entering the FX markets if they are dissatisfied with the current JPY level. Periodically they receive information on large hedge fund positions from banks and like to intervene when speculators are on the other side of the market, allowing them to get the most “bang for the bucks.” There are typically three main factors behind BoJ and MoF intervention:

1. Amount of appreciation/depreciation in JPY
2. Current USD/JPY rate
3. Direction of speculative positions

JPY movements are sensitive to time; Fiscal year end, Japanese trading hours
JPY crosses can become very active towards the end of the Japanese fiscal year (March 31), as exporters repatriate their dollar denominated assets. This is particularly important for Japanese banks because they need to rebuild their balance sheets to meet FSA guidelines, which require the banks to mark to market their security holdings.

Japanese traders tend to take hour-long lunches between 10pm–11pm EST, leaving only a junior trader in the office. Therefore, the Japanese lunchtime can be volatile, as the market gets very illiquid. During Japanese and London hours, the JPY tends to move fairly orderly unless breaking announcements or government official comments are made or surprising economic data is released. During U.S. hours however, the JPY tends to have higher volatility.

Banking stocks are widely watched
Since the crux of Japan's economic crisis stems from the non-performing loans (NPL) of the Japanese banks, banking stocks are closely watched by FX market participants. Any threat of default by these banks, disappointing earnings or further reports of significant NPLs can indicate even deeper problems for they economy. Therefore, bank stock movements can lead JPY movements.

Carry trade effects
The popularity of carry trades has increased in recent years, as investors are actively seeking high yielding assets. With JPY having the lowest interest rate of all industrialized countries, it is the primary currency sold or “borrowed” in carry trades.

IMPORTANT ECONOMIC INDICATORS FOR JAPAN

— Gross Domestic Product
— Tankan Survey
— Balance of Payments
— Employment
— Industrial Production

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Foreign Currencies Guide: New Zealand

SPOT

Currency	New Zealand Dollar
Common Name	Kiwi
Quotation Convention	4 decimal points
Most liquid cross	NZD / USD
Average Bid / Offer *	5 pips (0.6200 / 0.6205)
1 pip	.0001 USD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

New Zealand is a very small economy with GDP valued at approximately $50 billion USD in 2001. The country's population is actually equivalent to less than half of the population of New York City. It was once one of the most regulated countries within the OECD (Organization for Economic Co–operation and Development), but over the past two decades has been moving towards an open, modern and stable economy.

New Zealand also has highly developed manufacturing and services sectors, with the agricultural industry driving the bulk of the country's exports. The economy is strongly trade–oriented, with exports of goods and services representing approximately one third of GDP. Due to the small size of the economy and its significant trade activities, New Zealand is highly sensitive to global performance, especially as it relates to its key Asian trading partners, Australia and Japan. Together, Australia and Japan represent 30 percent of New Zealand's trading activity. During the Asian Crisis, New Zealand's GDP contracted by 1.3 percent as a result of reduced demand for exports, and two consecutive droughts from reduced agricultural and related production.

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MONETARY & FISCAL POLICY MAKERS

The Reserve Bank of New Zealand (RBNZ) is the monetary policy authority of New Zealand. Meetings on monetary policy occur eight times a year or approximately every six weeks. Unlike most other central banks, the decision for rate changes rests ultimately on the bank's governor. The current policy target agreements set by the minister and the governor focus on maintaining policy stability and avoiding unnecessary instability in output, interest rates and the exchange rate. Price stability refers to maintaining the annual consumer price index (CPI) inflation at 1.5 percent. If the RBNZ does not meet this target, the government has the ability to dismiss the governor of the RBNZ, though this is rarely done. This serves as a strong incentive for the RBNZ to meets its inflation target. The most common tools used by the RBNZ to implement monetary policy changes are the following:

Official Cash Rate (OCR): This is the rate set by the RBNZ to implement monetary policy. The bank lends overnight cash at 25 basis points above the OCR rate and receives deposits or pays interest at 25 basis points below this rate. By controlling the cost of liquidity for commercial banks, the RBNZ can influence the interest rates offered to individuals and corporations. This effectively creates a 50 basis point corridor that bounds the interbank overnight rate. Banks offering funds above the upper bound will attract few takers because funds can be borrowed for a lower cost from the RBNZ. Also, banks offering rates below the lower bound will also attract few takers, because they are offering lower yields than the RBNZ. The official cash rate is reviewed and manipulated to maintain economic stability.

Open Market Operations: This is used to meet the cash target. The cash target is the targeted amount of reserves held by registered banks. The current target is NZ$20 million. The RBNZ prepares forecasts of daily fluctuations on the cash target and then will use these forecasts to determine the amount of funds to inject or withdraw in order to meet the cash target.

IMPORTANT CHARACTERISTICS OF THE NEW ZEALAND DOLLAR

Strong correlation with AUD—competition with Australia
Australia is New Zealand's largest trading partner. This tied with the proximity of the countries and the fact that New Zealand is highly trade–oriented, creates strong ties between the two countries. When the Australian economy does well and Australian corporations increase their importing activities, New Zealand is one of the first to benefit. In fact, since 1999, the Australian economy has done very well, with for example, a booming housing market that created a need to increase imports of building products. As a result, this strength translated into Australia importing 10 percent more goods from New Zealand between 1999 and 2002.

Commodity–linked currency
New Zealand is an export driven economy with commodities representing over 40 percent of the country's exports. As a result, the currency has a 50 percent positive correlation with commodity prices. As commodity prices increase, the NZD will also appreciate. The correlation between AUD and NZD also contributes to the NZD's status as a commodity–linked currency. AUD economic performance is also highly correlated with commodity prices. Therefore, as commodity prices increase, the Australian economy benefits translating into increase activity in all aspects of the country's operations, including trade with New Zealand.

Carry trades
With the highest interest rate of the industrialized countries, the NZD has been one of the most popular currencies to buy for carry trades.

Interest rate differentials between the cash rates of Australia and the short–term interest rate yields of other industrialized countries are closely followed.

Interest rate can be good indicators of potential money flows as they indicate how much premium yield NZD short–term fixed income assets are offering over foreign short–term fixed income assets, or vice versa. This differential provides traders with indications of potential currency movements, as investors are always looking for assets with the highest yields.

POPULATION MIGRATION

New Zealand has a very small population. Therefore increases in migration into the country can have significant effects on the economy. From 2002 to 2003, the population of New Zealand increased by 37,500 people versus an increase of 1,700 between 2001 and 2002. This strong population migration into New Zealand has contributed significantly to the performance of the economy, because as the population increases, the demand for household goods increases, leading to an increase in overall consumer consumption.

Since the bulk of New Zealand's exports are commodities, the country's GDP is highly sensitive to severe weather conditions that may damage the country's farming activities. In 1998, droughts cost the country over $50MM. In addition, droughts are also very frequent in Australia, New Zealand's largest trading partner. These droughts have cost Australia up to 1 percent in GDP, which also translated into a negative affect on the New Zealand economy.

IMPORTANT ECONOMIC INDICATORS FOR NEW ZEALAND

— Gross Domestic Product (GDP)
— Consumer Price Index (CPI)
— Producer Price Index (PPI)
— Balance of Goods and Services
— Private Consumption

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Foreign Currencies Guide: Switzerland

SPOT

Currency	Switzerland Franc
Common Name	Swiss
Quotation Convention	4 decimal points
Most liquid cross	USD / CHF
Average Bid / Offer *	8 pips (1.3300 / 1.3308)
1 pip	.0001 CHF
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

Switzerland is the 19th largest economy in the world, with GDP valued of more than $240 billion USD in 2001. The economy is relatively small, but it is one of the wealthiest in the world on a GDP per capita basis. The confidentiality offered by the Swiss banking system coupled with the country's lengthy history of political neutrality has created a "safe haven" reputation for the country and its currency. As a result, Switzerland is the world's largest destination for offshore capital. The country holds over U.S. $2 trillion in offshore assets and is estimated to attract more than 35 percent of the world's private, wealth–management business. This has created a large and highly advanced banking and insurance industry that employs at least 50 percent of the population and comprises more than 70 percent of the total GDP. Since Switzerland's financial industry thrives on its safe haven status and renowned confidentiality, capital flows tend to drive the economy during times of global risk aversion while trade flows drive the economy during a risk–seeking environment. Therefore, trade flows are important with nearly two thirds of all trade conducted with Europe.

MONETARY & FISCAL POLICY MAKERS

The Swiss National Bank (SNB) is the monetary policy authority of Switzerland. All decisions are based on a consensus vote. The SNB board reviews monetary policy at least once a quarter, but decisions on monetary policy can be made and announced at any point in time. Unlike most other central banks, the SNB does not set one official interest rate target, but instead sets a target range for their three month Swiss LIBOR rate (London Interbank Offer Rate). The Swiss LIBOR rate is set based upon the need for maintaining an inflation target of less than 2 percent inflation per year.

The SNB also closely monitors exchange rates, as excessive strength in the Swiss franc can cause inflationary conditions. This is especially true in environments of global risk aversion, as capital flows into Switzerland increases significantly during those times. As a result, the SNB typically favors a weak franc, and is not hesitant to use intervention as liquidity tool. SNB officials intervene in the franc using a variety of methods including verbal remarks on liquidity, money supply and the currency.

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MONETARY & FISCAL POLICY MAKERS (continued)

The most commonly used tools by the SNB to implement monetary policy include the following:

Target Interest Rate Range: The SNB implements monetary policy by setting a target range for their three–month interest rate (the Swiss LIBOR rate). This range typically has a 100 basis point spread and is revised at least once every quarter. This rate is used as their target because it is the most important money market rate for Swiss franc investments. Changes to this target are accompanied with a clear explanation regarding the changes in the economic environment.

Open Market Operations: Repo transactions are the SNB's major monetary policy instrument. A repo transaction involves a cash taker (borrower) selling securities to a cash provider (lender) while agreeing to repurchase the securities of the same type and quantity at a later date. This structure is similar to a secured loan whereby the cash taker must pay the cash provider interest. These repo transactions tend to have very short maturities ranging from one day to a few weeks. The SNB uses these repo transactions to manipulate undesirable moves in the three month LIBOR rate. To prevent increases in the three month LIBOR rate above the SNB's target, the bank would supply the commercial banks with additional liquidity through repo transactions at lower repo rates, and in essence create additional liquidity. Conversely, the SNB can reduce liquidity or induce increases in the three month LIBOR rate by increasing repo rates.

The SNB publishes a quarterly bulletin with a detailed assessment of the current state of the economy and a review of monetary policy. In addition, a monthly bulletin is also published that contains a short review of the SNB's economic developments. These reports are important to watch because they may contain information on changes in the SNB's assessment of the current domestic situation.

IMPORTANT CHARACTERISTICS OF THE SWISS FRANC

Safe Haven Status
The key advantages of Switzerland are its safe-haven status and the secrecy of its banking system. The Swiss franc moves primarily on external events rather than domestic economic conditions. That is, as mentioned earlier, due to its political neutrality, the franc is considered the world's premier safe-haven currency. Therefore, in times of global instability and/or uncertainty, investors tend to be more concerned with capital retention than appreciation. During such times, funds will flow into Switzerland and cause the Swiss franc to appreciate.

Swiss Franc is correlated with gold
Switzerland is the world's fourth largest official holder of gold. This is due to the fact that the Swiss constitution use to have a mandate requiring the currency to be backed 40 percent with gold reserves. The link to gold remains in the minds of Swiss investors. As a result, the Swiss franc has close to an 80 percent positive correlation with gold. Therefore if the gold price appreciates, the Swiss franc has a high likelihood of appreciating as well. In addition, since gold is also viewed as the ultimate safe-haven form of money, gold and the Swiss franc should continue to benefit as global economic and geopolitical uncertainty continues.

Carry trades effects
The popularity of carry trades has increased in recent years as investors are actively seeking high-yielding assets. With CHF having one of the lowest interest rates of all industrialized countries, it is one of the primary currencies sold or "borrowed" in carry trades.

Interest rate differentials between Euro and Swiss futures and foreign interest rate futures are closely followed
Interest rate differentials are good indicators of potential money flows since they indicate how much yield premium U.S. fixed income assets are offering over Swiss fixed income assets or vice versa. This differential provides traders with indications of potential currency movements, as investors are always looking for assets with the highest yields.

IMPORTANT CHARACTERISTICS OF THE SWISS FRANC (continued)

Potential changes in banking regulations negatively weigh on CHF
The European Union has recently been putting significant pressure on Switzerland to relax the confidentiality of their banking system and to increase transparency of their customers' accounts. Switzerland is currently grappling with this issue because the confidentiality of their customers' accounts is the core strength of their banking system. Any news or talk of changing banking regulations will likely affect Switzerland's economy and the Swiss franc.

Mergers and acquisitions are common in Switzerland's banking and insurance sectors
Switzerland's primary industry is banking and finance. With the recent consolidation in the overall industry, merger and acquisition activities are very common. These M&A activities can have significant influence on CHF spot prices. If foreign firms purchase Swiss banks or insurance companies, they will need to buy CHF and sell their local currency. If Swiss banks purchase foreign firms, they will need to sell CHF and buy the foreign currency.

Cross currency characteristics—EUR/CHF versus USD/CHF
The EUR/CHF is the most commonly traded currency for traders who want to participate in CHF movements. The USD/CHF has higher illiquidity and volatility. However, daytraders may tend to favor USD/CHF over EUR/CHF because of its volatile movements. In actuality, the USD/CHF is only a synthetic currency derived from EUR/USD and EUR/CHF. Market–makers or professional traders tend to use those pairs as leading indicators for trading USD/CHF or to price the current USD/CHF level when the currency pair is illiquid. Theoretically, the USD/CHF rate should be exactly equal to EUR/CHF divided by EUR/USD. Only during times of severe global risk aversion, like the events that took place in the U.S on September 11, 2001, will the USD/CHF develop a market of its own. Regardless, any small differences in these rates are quickly exploited by market participants.

IMPORTANT ECONOMIC INDICATORS FOR SWITZERLAND

— Consumer Price Index (CPI)
— Gross Domestic Product (GDP)
— Balance of Payments
— M3 (measure of monetary supply tracked by the New York Federal Reserve Bank and reported every Thursday)
— Unemployment
— Production Index (Industrial Production)

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Foreign Currencies Guide: United States

SPOT

Currency	U.S. Dollar
Common Name	Dollar
Quotation Convention	2 decimal points
Most liquid cross	USD / JPY, EUR / USD
Average Bid / Offer *	3 pips (110.70 / 110.73), (1.1570 / 1.1573)
1 pip	.01 JPY, .0001 USD
Settlement	Transaction plus two days (T +2)

ECONOMIC OVERVIEW

The United States is the world's leading economic power, with GDP valued at over $10 trillion USD in 2001. This is the highest GDP in the world and based upon purchasing power parity (PPP), it is three times the size of Japan's output, five times the size of Germany's and seven times the size of the United Kingdom's GDPs. With the U.S. having the most liquid equity and fixed income markets in the world, foreign investors have consistently increased their purchases of U.S. assets. Foreign direct investments represent approximately 40 percent of total global net inflows for U.S. On a net basis, the U.S. absorbs 71 percent of total foreign savings.

The import and export volume of the U.S. also exceeds that of any other country. On a netted basis, the U.S. is running a very large trade deficit of nearly $500bln. This is because the U.S. is the largest trading partner for most countries, representing 20 percent of total world trade.

This large absolute number indicates that the U.S. is heavily reliant on capital flows and the dollar is very sensitive to changes in those flows. In fact, in order to prevent a further decline in the USD as a result of trade, the U.S. would need to attract close to $1.9bn in capital inflows per day.

The U.S. is primarily a service–oriented country with nearly 80 percent of their GDP coming from real estate, transportation, finance, healthcare, and business services. With the advent of new technology such as the internet, productivity in the U.S. has consistently increased. This is particularly interesting in light of the U.S.'s recent economic downturn, because many economists argue that despite the current downturn, increased productivity indicates that we are in a "new economy." The importance of this comment is that if the U.S. is indeed in a "new economy," previous reactions to recessionary conditions may not repeat themselves in this downturn.

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MONETARY & FISCAL POLICY MAKERS

The Federal Reserve Board (Fed) is the central bank of the United States. The Fed is responsible for setting and implementing monetary policy. The FOMC holds 8 meetings per year that are widely watched for interest rate announcements or changes in growth expectations.

The Federal Reserve issues a biannual monetary policy report in February and July followed by the Humphrey–Hawkins testimony where the Federal Reserve Chairman responds to questions from the Congress and the Banking Committees the MP report being published. This report is important to watch because it contains the FOMC forecasts for GDP growth, inflation and unemployment.

The Fed, unlike most other central banks, has a mandate or “long–run objectives” of price stability and sustainable economic growth. In order to adhere to these goals, the Fed has to use monetary policy to limit inflation, unemployment and to achieve balanced growth. The most popular tools that the Fed uses to control monetary policy include the following:

Open Market Operations: These involve Fed purchases of government securities, including Treasury bills, notes and bonds. This used to be one of the most popular methods for the Fed to signal and implement policy changes. As the Fed purchases government securities, they in effect decrease interest rates. When the Fed sells government securities, interest rates increase.

Fed Funds Target: The FFT is the interest rate that is the key policy target of the Fed. It is in essence, rate that the U.S. central bank and the Fed charges on overnight loans between banks. The Fed tends to increase this rate to curb inflation or decrease this rate to promote growth and consumption. Changes in this rate tend to imply major changes in policy and typically have large ramifications for global fixed income and equity markets.

The U.S. Treasury is responsible for issuing government debt and for making fiscal policy decisions. Fiscal policy decisions include determining the appropriate level of taxes and government spending. The U.S. Treasury is the actual government body that determines dollar policy. The U.S. Treasury ultimately instructs the NY Federal Reserve Board whether to intervene in the foreign exchange market by physically selling or buying USD to affect the currency's value. Therefore, the Treasury’s view on dollar policy and changes to that view are very important to the currency market. Over the course of the past few decades, the Treasury and Fed officials have maintained a “strong dollar” bias.

IMPORTANT CHARACTERISTICS OF THE U.S. DOLLAR

— More than 90 percent of all currency deals involve the USD.
— Prior to September 11, 2001, the USD was considered one the world's premier “safe–haven” currencies.

However, post–Sept.11 foreign holders of U.S. assets, including central banks, have pared their USD holdings as a result of increased U.S. uncertainty and decreased interest rates.

Gold and USD tend to have inverse relationships.
This inverse relationship is developed as a result of the fact that gold is measured in dollars. Recent USD depreciation due to global uncertainty has been the primary reason for gold appreciation, as gold is commonly viewed as the ultimate form of money.

Many emerging market countries “peg” their local currencies to the USD.
Pegging a currency to the USD pertains to the basic idea that a government agrees to maintaining the USD as a reserve currency by offering to buy or sell any amount of domestic currency at the pegged rate for the reserve currency. In addition, the government typically must also promise to hold reserve currency at least equal to the amount of local currency in circulation. Countries with currencies pegged to the USD include Mexico and China. This is particularly important because countries such as those will take an active interest in managing their fixed or floating pegs. Any fluctuations beyond this band will be subject to intervention by the central bank, which will include buying or selling USD.

IMPORTANT CHARACTERISTICS OF THE U.S. DOLLAR (continued)

The Treasury and Fed favor a "strong dollar" policy.

Interest Rate Differentials between U.S. treasuries and foreign bonds strongly followed.
The interest rate differentials between U.S. treasuries and foreign bonds are important to follow due to it being a strong indicator of potential currency movements, and investors are looking for assets with the highest yields. As yields in the U.S. decrease or if yields abroad increase, this would induce investors to sell their U.S. assets and purchase foreign assets. Selling U.S. fixed income or equity assets would influence the currency market because that would require selling the USD and buying the foreign currency. If U.S. yields increase or foreign yields decrease, investors would be more inclined to purchase U.S. assets, therefore boosting the USD.

USD Index.
Market participants closely follow the U.S. Dollar Index as a gage to overall USD strength or weakness.

U.S. currency trading impacted by stock and bond markets.
There is a strong, positive correlation between a country's equity and fixed income markets and its currency.

IMPORTANT ECONOMIC INDICATORS FOR THE U.S.

All of the following economic indicators are important for the U.S. However, since the U.S. is a service–oriented economy, it is important to pay particular attention to numbers for the service sector.

- Employment
- Consumer Price Index (CPI)
- Producers Price Index (PPI)
- Gross Domestic Product (GDP)
- International Trade
- Employment Cost Index (CPI)
- Institute of Supply Managers (Formerly NAPM)
- Industrial Production
- Consumer Confidence
- Retail Sales

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Foreign Currencies Guide: China

SPOT

Currency	Chinese Yuan
Quotation Convention	2 decimal points
Most liquid cross	USD / CNY
Best Liquidity	0130 – 0230 GMT
Average Bid / Offer *	500 pips (8.2270 – 8.2770)
1 pip	0.001 CNY
Average Daily Trading Volume	U.S. $200m
Settlement	Transaction plus one day (T+1)

The yuan, CNY, spot FX market is limited to onshore companies and financial institutions. It is not traded offshore. The USD/CNY rate is closely managed by the central bank (PBOC) at around 8.2770 currently. There have been calls for the Chinese government to revalue its currency but that has met resistance. As the government continues to reform its economic policies and strengthen its banking systems tangent to the central bank there should be a realistic call for opening up spot trading. However, this will take some time. Officially, the system is called a managed float and not a USD peg. There is no CNY forward market, only spot FX. The non deliverable forward market is not traded onshore. There is no interbank money market beyond 4 months. The bond market is restricted to designated onshore financial institutions only and is not liquid.

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Foreign Currencies Guide: Czech Republic

SPOT

Currency	Czech Koruna
Quotation Convention	3 decimal points
Most liquid cross	EUR / CZK
Best Liquidity	0900 – 1700 GMT
Average Bid / Offer *	40 pips (32.5220 – 32.5260)
1 pip	0.001 CZK
Average Daily Trading Volume	EUR $2–3bn
Settlement	Transaction plus two days (T+2)

The Czech koruna is a convertible currency that has been free floating since May 1997. Foreign investors have unrestricted access to the local markets. London banks are very active in currency trading, which is estimated to account for 60 percent of daily turnover. The deposit market is also very liquid and foreigners deal actively. Interest rate swaps (IRS) are also available up to 15 years. The market is most liquid up to 5 years. The IRS market is mostly driven by offshore banks.

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Foreign Currencies Guide: Hong Kong

SPOT

Currency	Hong Kong Dollar
Quotation Convention	4 decimal points
Most liquid cross	USD / HKD
Best Liquidity	0130 – 0830 GMT
Average Bid / Offer *	15 pips (7.7985 – 7.8000)
1 pip	0.0001 HKD
Average Daily Trading Volume	U.S. $1.5bn
Settlement	Transaction plus two days (T+2)

USD/HKD is a managed floating currency at a rate of around 7.8 HKD per USD. The normal band consists of 1 percent fluctuation allowance. There is much speculation about the possibilities of free floating this currency which will most likely coincide with and be linked to the progress and reforms of the CNY. No distinction is made between local and offshore trading. There is no NDF market. FX options are available. There are no spot or forward trading restrictions but documentation is required. There is a liquid government bond market (Exchange Fund Notes) with maturities of up to 10 years. Interest rate swaps and options are liquid up to 10 years.

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Foreign Currencies Guide: Hungary

SPOT

Currency	Hungarian Forint
Quotation Convention	2 decimal points
Most liquid cross	USD / HUF & EUR / HUF
Best Liquidity	0900 – 1600 GMT
Average Bid / Offer *	150 pips USD / HUF (208.50 – 210.00) 300 pips EUR / HUF (267.50 – 270.50)
1 pip	0.01 HUF
Average Daily Trading Volume	EUR 500–700m
Settlement	Transaction plus two days (T+2)

Until May 2001, the forint, HUF, was the most restricted currency in the region, managed by a crawling peg against the EUR, with .3 percent devaluation per month within a band of +/- 2.25 percent from the central parity. In May 2001, this band was widened to +/- 15 percent and in June was made fully convertible for current and capital account transactions. Though the wider band is still in operation the HUF is now essentially in a free float regime around a central parity of 276.1. Restrictions on foreign holdings of money market instruments have also been lifted allowing offshore investors to go short HUF.

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Foreign Currencies Guide: India

SPOT

Currency	Indian Rupee
Quotation Convention	3 decimal points
Most liquid cross	USD / INR
Best Liquidity	0400 – 1000 GMT
Average Bid / Offer *	8 pips (45.4200 – 45.4208)
1 pip	0.001 INR
Average Daily Trading Volume	U.S. $750m
Settlement	Transaction plus two days (T+2)

The exchange rate of the rupee, INR, is determined in the interbank market. Since January 2000 this has been managed by the Reserve Bank of India and is classified as a managed float regime. Local and offshore trade is differentiated in that documentation is required for both spot and forward fx for offshore trading. It is a widely held belief the INR will be among the first emerging markets to become spot eligible without restrictions or documentation. NDFs are available and FX options have just become available. There are some trading restrictions and documentation is required. Spot fx settlement is TRANSACTION PLUS TWO DAYS (T+2). There is a very liquid bond market with maturities available of up to 25yrs given the government's need to fund a persistent budget deficit. Interest Rate Swaps are available onshore and are traded up to 10 years but with mixed liquidity.

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Foreign Currencies Guide: Korea

SPOT

Currency	Korean Won
Quotation Convention	2 decimal points
Most liquid cross	USD / KRW
Best Liquidity	0130 – 0830 GMT
Average Bid / Offer *	0.15 (1182.50 – 1182.65)
1 pip	0.01 KRW
Average Daily Trading Volume	U.S. $2bn
Settlement	Transaction plus two days (T+2)

The won, KRW, is in a free float regime. Local and offshore markets are treated separately. Documentation is required but on for delivery at maturity offshore and for forward FX contracts. NDF's are traded as are FX options. There are no trading restrictions. Interest Rate Swaps are available and are traded up to 10–years with interest rate options also available.

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Foreign Currencies Guide: Mexico

SPOT

Currency	Mexican Peso
Quotation Convention	4 decimal points
Most liquid cross	USD / MXN & EUR / MXN
Best Liquidity	0830 – 1930 GMT
Average Bid / Offer *	120 pips USD / MXN (10.8350 – 10.8470) 150 pips EUR / MXN (13.9000 – 13.9150)
1 pip	.0001 MXN
Average Daily Trading Volume	U.S. $7bn
Settlement	Cash, Tom, Spot

The peso has floated since December 1994 after the exchange rate band regime was abandoned. Both FX and local debt markets are very liquid. The government issues bills with tenors ranging from one month up to one year on a weekly basis, according to a pre–announced schedule. Since last year, the government is also issuing longer–dated peso securities with up to 5 year maturity, but the short end is most liquid. The government has issued peso denominated securities only since 1995 and inflation linked bonds since 1996. The extension in the yield curve that resulted from the consolidation of a more stable macroeconomic framework in recent years has allowed several Mexican firms to issue peso–denominated securities with medium term tenors in the domestic market. Interest rate swaps are liquid up to 5 years and are traded up to 10 years.

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Foreign Currencies Guide: Poland

SPOT

Currency	Polish Zloty
Quotation Convention	4 decimal points
Most liquid cross	USD / PLN & EUR / PLN
Best Liquidity	0900 – 1700 GMT
Average Bid / Offer *	80 pips USD / PLN (3.6550 – 3.6630) 80 pips EUR / PLN (4.6910 – 4.6990)
1 pip	.0001 PLN
Average Daily Trading Volume	U.S. $1bn
Settlement	Transaction plus two days (T+2)

The zloty, PLN, has been free floating since April 2000. It is convertible for current account transactions. Most money market transactions are done through forex swaps for offshore investors. Domestic security exposures can be hedged in the domestic forward market by offshore investors. An offshore interest rate swap market has been developing fast, with up to the 5 year being the most liquid part of the IRS curve.

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Foreign Currencies Guide: Singapore

SPOT

Currency	Singapore Dollar
Quotation Convention	4 decimal points
Most liquid cross	USD / SGD
Best Liquidity	0100 – 0800 GMT
Average Bid / Offer *	7 pips (1.6930 – 1.6937)
1 pip	.0001 SGD
Average Daily Trading Volume	U.S. $1bn
Settlement	Transaction plus two days (T+2)

The Singapore dollar, SGD, is under a managed float regime guided by the currency's trade weighted index. The Monetary Authority of Singapore's long term policy is to manage a trade weighted appreciation of the currency to dampen imported inflation and to balance aggregate demand. The local and offshore markets are not distinguished and there are no local/offshore restrictions. There is a liquid spot market and a limited forward FX market. NDF's are not available but FX options are. There are no trading restrictions, documentation is therefore not required. With the promotion of the central bank, the government and the corporate bond markets have grown in recent years. IRS's are traded on-shore from 1 to 10 years with liquidity good up to 5 years but poor beyond there.

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Foreign Currencies Guide: South Africa

SPOT

Currency	South African Rand
Quotation Convention	4 decimal points
Most liquid cross	USD / ZAR
Best Liquidity	0900 – 1700 GMT
Average Bid / Offer *	300 pips (6.7400 – 6.7700)
1 pip	.0001 ZAR
Average Daily Trading Volume	U.S. $1bn
Settlement	Transaction plus two days (T+2)

The South African domestic market is one of the more sophisticated in terms of products and liquidity in comparison to the other markets. Foreign exchange and money markets are liquid, with active participation both from onshore and offshore investors. The fixed–income market is also well developed, with a term structure of up to 30 years. The Interest rate swap market is also developing fast and becoming liquid. There are restrictions for offshore investors but these are rarely enforced.

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Foreign Currencies Guide: Thailand

SPOT

Currency	Thai Baht
Quotation Convention	2 decimal points
Most liquid cross	USD / THB
Best Liquidity	0100 – 0900 GMT
Average Bid / Offer *	5 pips (39.00 – 39.05)
1 pip	.01 THB
Average Daily Trading Volume	U.S. $700 – 900m
Settlement	Transaction plus two days (T+2)

Following the Asian financial crisis the authorities introduced new restrictions on THB flows. These tighter controls have reduced THB volatility and helped the Bank of Thailand maintain interest rates at lower levels. THB is a freely floating currency with segregated domestic and offshore markets. Official documentation is required to trade THB both in spot and forward market. NDF's are not available but options are. The BOT has recently increased the level of documentation required by non residents. The government bond market has grown rapidly since 1997, to help set the benchmark for corporate bond issuance. Issuance rose sharply as the government raised funds to finance the financial sector bail–out in 1998. The corporate bond market has also flourished as companies turn to the bond market for funding (due to low interest rate and banks' reluctance to lend). IRSs are available off–shore and on–shore from 1–10 years with liquidity poor beyond 5 years.

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Foreign Currencies Guide: Turkey

SPOT

Currency	Turkish Lira
Quotation Convention	0 decimal points
Most liquid cross	USD / TRL
Best Liquidity	0830 – 1700 GMT
Average Bid / Offer *	10000 pips (1,350,500 – 1,360,000)
1 pip	1 TRL
Average Daily Trading Volume	U.S. $500m
Settlement	Transaction plus two days (T+2)

Since February 2001 the Turkish Lira, TRL, has been a fully convertible currency, having been a managed basket up until then. There are no restrictions on offshore investment. Both forex and fixed–income markets are liquid, and offshore investors are fairly active in all markets. The longest maturity in TRL is 18 months. The most liquid part of the curve is up to 1 year. There is a liquid and active repo market with O/N–1w maturities.

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